

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Barry County Transit	County Barry
Fiscal Year End 9/30/06	Opinion Date 10/25/06	Date Audit Report Submitted to State 1/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

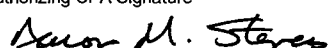
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	N/A	
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Rd, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens	License Number 1101024055	

**Barry County Transit
Hastings, Michigan**

FINANCIAL STATEMENTS

September 30, 2006

Barry County Transit

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants
INDEPENDENT AUDITOR'S REPORT

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(517) 351-6836
FAX: (517) 351-6837

Board of Directors
Barry County Transit
Hastings, Michigan

We have audited the component unit financial statements of the Barry County Transit as of and for the year ended September 30, 2006, as listed in the Table of Contents. These component unit financial statements are the responsibility of the Transit's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Barry County Transit as of September 30, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2006, on our consideration of the Barry County Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the component unit financial statements that collectively comprise the Barry County Transit's basic financial statements. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Barry County Transit. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 25, 2006

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

The intent of the management's discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended September 30, 2006. Readers are encouraged to read this section in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS

- **Assets:** The assets of the Transit did exceed its liabilities by \$962,535 (net assets). Of this amount, \$315,845 (unrestricted net assets) may be used to meet the Transit's ongoing obligations to citizens and creditors. The total net assets increased by \$73,089. The increase was primarily due to a new property tax levy approved by the citizens of Barry County.
- **Unrestricted Net Assets:** At the end of the current fiscal year, the unrestricted net assets balance for the Transit was \$315,845, or approximately 39% of total expenses. This is up from \$112,801, which was approximately 16% of last year's total expenses.
- **Ridership Mileage** of 170,426 miles for the fiscal year was 9,107 miles more than the preceding year. Fares increased by \$2,971. The increase is attributed to the addition of new routes to rural areas and the corresponding ridership increase.
- **Federal & State Funding of Capital Projects:** Barry County Transit is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending September 30, 2006, the Transit recognized \$8,458 in funding for the replacement of computers and related equipment.
- **Investment Income:** The interest revenue decreased to \$2,188 from \$2,648 the previous fiscal year primarily due to reduced cash equivalents invested.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of the Transit, which include notes that explain in more detail some of the information in the financial statements.

As an Act 94 Public improvement, Barry County Transit engages in enterprise operations in various separate and distinct activities. These activities range from: 1) demand service for transportation commuters, 2) contracted tripper service for school routes, 3) inter-county regional service, primarily for medical purposes, and 4) contracted service for human service agencies.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Transit using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the Transit's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Transit creditors (liabilities). It also provides the basis for evaluating the capital structure of the Transit and assessing the liquidity and financial flexibility of the Transit.

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of the Transit's operations over the past year and can be used to determine whether the Transit has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the report period.

FINANCIAL ANALYSIS OF BARRY COUNTY TRANSIT

The Statement of Net Assets and the Statement of Activities provide the information to determine how the Transit did financially during 2005-6. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining the Transit's financial health.

NET ASSETS

The Transit's Comparative Condensed Statements of Net Assets and Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year 2005-6	Fiscal Year 2004-5
Current Assets	\$ 345,213	\$ 151,805
Capital Assets, net	<u>646,690</u>	<u>776,645</u>
Total Assets	991,903	928,450
Current Liabilities	29,368	39,004
Noncurrent Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>29,368</u>	<u>39,004</u>
Invested in Capital Assets		
Net of Related debt	646,690	776,645
- Unrestricted	<u>315,845</u>	<u>112,801</u>
Total Net Assets	<u>\$ 962,535</u>	<u>\$ 889,446</u>

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year 2005-6	Fiscal Year 2004-5
Operating Revenues	\$ 150,934	\$ 147,963
Nonoperating Revenues	<u>726,227</u>	<u>324,283</u>
Total Revenues	877,161	472,246
Depreciation Expense	144,348	147,153
Other Operating Expenses	<u>659,724</u>	<u>557,634</u>
Total Expenses	<u>804,072</u>	<u>704,787</u>
Change in Net Assets	73,089	(232,541)
Beginning Net Assets	<u>889,446</u>	<u>1,121,987</u>
Ending Net Assets	<u>\$ 962,535</u>	<u>\$ 889,446</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets shows that the operating loss before intergovernmental (nonoperating) revenues was a factor in the Change in Net Assets. In addition, the depreciation expense of \$144,348 is a non-cash expense which represents the reduction in the value of the facility and busses. Due to the nature of the Transit's capital improvement plan, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through the State and Federal funding.

The Transit's operating revenues increased approximately 2% over the prior year, which was not considered to be a material change. Operating expenses increased approximately 14%, mainly due to increased advertising and increasing costs such as health insurance premiums and fuel.

The Transit's nonoperating revenues increased by approximately \$401,944, or about 124% over the prior year. This increase is due primarily to a new property tax levy of .25 mills approved by the voters of Barry County, and began with the 2005 winter tax levy.

CAPITAL ASSETS

The acquisition of new busses is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This allows for the Transit to maintain its fleet at an average life of seven (7) years. This funding source also allows for the Transit to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility. The Transit has not purchased any new buses in the past two years. During the year the Transit disposed of five (5) buses through auction sales.

Barry County Transit

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

TABLE 3
CAPITAL ASSETS

	<u>Fiscal Year 2005-6</u>	<u>Fiscal Year 2004-5</u>
Land improvements	\$ 28,649	\$ 28,649
Buildings and improvements	759,877	759,877
Furniture and equipment	55,784	61,028
Vehicles	1,107,732	1,289,711
Shop equipment	<u>31,377</u>	<u>31,502</u>
Subtotal	1,983,419	2,170,767
Less: Accumulated depreciation	<u>(1,336,729)</u>	<u>(1,394,122)</u>
Net property and equipment	<u>\$ 646,690</u>	<u>\$ 776,645</u>

The Transit's Five-Year Capital Plan includes bus acquisition. Federal grants have been awarded to supply, upgrade and replace maintenance equipment, as well as replace several busses. Note D to the financial statements provides additional information regarding capital assets.

DEBT ADMINISTRATION

The Transit carries no long-term debt as any improvements to the fleet or facilities have all been secured by state or federal projects. This allows the Transit to avoid any debt other than current liabilities in the normal operation of the system.

ECONOMIC FACTORS

Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained relatively consistent; however, fluctuations in future funding levels may be contributed to economic conditions at local, state, and federal levels.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Transit's finances and to demonstrate the Transit's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the Transportation Manager of Barry County Transit at 1216 West State Street, Hastings, Michigan 49058, (269) 948-8098.

BASIC FINANCIAL STATEMENTS

Barry County Transit

STATEMENT OF NET ASSETS

September 30, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 302,262
Accounts receivable	9,431
Due from other governmental units	<u>33,520</u>

Total current assets 345,213

Noncurrent assets

Capital assets, net of accumulated depreciation	<u>646,690</u>
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TOTAL ASSETS 991,903

LIABILITIES

Current liabilities

Accounts payable	8,576
Accrued payroll	18,530
Other accrued liabilities	<u>2,262</u>

TOTAL LIABILITIES 29,368

NET ASSETS

Invested in capital assets	646,690
Unrestricted	<u>315,845</u>

TOTAL NET ASSETS \$ 962,535

See accompanying notes to financial statements.

Barry County Transit

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2006

OPERATING REVENUES	
Sales and charges for services	\$ 150,934
OPERATING EXPENSES	
Administrative	191,984
Operations	498,485
Maintenance	<u>113,603</u>
TOTAL OPERATING EXPENSES	<u>804,072</u>
OPERATING (LOSS)	(653,138)
NONOPERATING REVENUES	
Taxes	392,934
Intergovernmental	
Federal sources	103,594
State sources	210,230
Local sources	17,281
Interest earnings	<u>2,188</u>
TOTAL NONOPERATING REVENUES	<u>726,227</u>
NET INCOME	73,089
Net assets, beginning of year	<u>889,446</u>
Net assets, end of year	<u><u>\$ 962,535</u></u>

See accompanying notes to financial statements.

Barry County Transit

STATEMENT OF CASH FLOWS

Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 152,516
Cash paid to employees	(330,495)
Cash paid to suppliers	<u>(338,865)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (516,844)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes	392,934
Intergovernmental sources	
State and Federal grants	300,895
Local contributions	<u>17,281</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 711,110

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State and Federal capital assistance	23,575
Capital acquisitions	<u>(14,393)</u>

NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES 9,182

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>2,188</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR 205,636

Cash and cash equivalents, beginning of year 96,626

Cash and cash equivalents, end of year \$ 302,262

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating (loss)	\$ (653,138)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	144,348
Decrease in accounts receivable	1,582
(Decrease) in accounts payable	(9,542)
(Decrease) in accrued wages	(80)
(Decrease) in other accrued liabilities	<u>(14)</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (516,844)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Barry County Transit (The Transit) is considered a component unit of Barry County, Michigan for financial accounting and reporting purposes.

The Transit receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing, and specialized services, and replace buses and other equipment. The Transit provides demand response services within Barry County. The Transit also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Barry County Transit conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Transit has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Barry County Transit. The Transit is considered a "component unit" of the County of Barry, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Transit in the County's Annual Financial Report. The Annual Financial Report of Barry County, Michigan is available for public inspection at the Barry County Courthouse.

2. Basis of Presentation

The accounts of the Transit are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Transit resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Transit applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Transit has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Barry County Transit
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Transit cash accounts consist of deposits with the County Treasurer. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	20 years
Vehicles	5-7 years
Shop equipment	2-10 years
Furniture and equipment	10 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

7. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

9. Cost Allocations

The Barry County Transit allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Transit is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Cash and cash equivalents on the statement of net assets consist of the following:

Deposits with Barry County common cash pool account	\$ 246,563
Certificates of deposit	<u>55,599</u>
Total	<u>\$ 302,162</u>

The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$100 of imprest cash.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2006, the Transit did not have any investments that would be subject to rating.

Barry County Transit
NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Interest rate risk

The Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Transit's cash requirements.

Concentration of credit risk

The Transit will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Transit's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Transit will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Transit will do business in accordance with Board approved policy.

A portion of the cash and cash equivalents of the Barry County Transit are covered by federal deposit insurance along with other deposits of Barry County, limited to \$100,000 in total deposits by bank account type for each bank customer. Since the County maintains these funds in pooled accounts, it is not practical to determine what portion of the Barry County Transit funds is insured.

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2006, by grant type and year are as follows:

Federal Section 5311 Operating - FY 05	\$(4,652)
State Operating Assistance - FY 05	5,776
Federal Section 5311 Operating - FY 06	<u>32,396</u>
Total	<u>\$ 33,520</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006, was as follows:

	Balance <u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2006</u>
Business-type activities:				
Land improvements	\$ 28,649	\$ -	\$ -	\$ 28,649
Buildings and improvements	759,877	-	-	759,877
Vehicles	1,289,711	-	(181,979)	1,107,732
Furniture and equipment	61,028	14,393	(19,637)	55,784
Shop equipment	<u>31,502</u>	<u>-</u>	<u>(125)</u>	<u>31,377</u>
Totals at historical cost	2,170,767	14,393	(201,741)	1,983,419

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2006</u>
Less accumulated depreciation for:				
Land improvements	\$(28,649)	\$ -	\$ -	\$(28,649)
Buildings and improvements	(409,023)	(37,994)	-	(447,017)
Vehicles	(866,289)	(102,750)	181,979	(787,060)
Furniture and equipment	(58,988)	(3,518)	19,637	(42,869)
Shop equipment	(31,173)	(86)	125	(31,134)
Total accumulated depreciation	<u>(1,394,122)</u>	<u>(144,348)</u>	<u>201,741</u>	<u>(1,336,729)</u>
Net Capital Assets	<u>\$ 776,645</u>	<u>\$(129,955)</u>	<u>\$ -0-</u>	<u>\$ 646,690</u>

A summary of capital assets by funding source at September 30, 2006, follows:

	<u>Purchased with Local Funds</u>	<u>Purchased with State Capital Grants</u>	<u>Purchased with Federal Capital Grants</u>	<u>Total</u>
Land improvements	\$ -	\$ 28,649	\$ -	\$ 28,649
Building and improvements	10,102	172,949	576,826	759,877
Vehicles	35,026	376,850	695,856	1,107,732
Furniture and equipment	5,764	28,522	21,498	55,784
Shop equipment	<u>6,569</u>	<u>24,808</u>	<u>-</u>	<u>31,377</u>
Total	57,461	631,778	1,294,180	1,983,419
Less: accumulated depreciation	<u>(54,570)</u>	<u>(476,503)</u>	<u>(805,656)</u>	<u>(1,336,729)</u>
Net Capital Assets	<u>\$ 2,891</u>	<u>\$ 155,275</u>	<u>\$ 488,524</u>	<u>\$ 646,690</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Barry County Transit disposed of assets that were Federally and State funded with a historical cost of \$201,741. The total amount disposed of was fully depreciated. Depreciation expense in the amount of \$144,348 was reported for the year ended September 30, 2006.

NOTE E: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the rate of 6 hours per month, up to 720 hours maximum accrual.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave of current employees is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2006, will be paid from current financial resources and is not recorded as a long-term liability.

Barry County Transit

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE F: PROPERTY TAX REVENUES

Barry County Transit's property tax is levied in December on the State Equalized Valuation of property located in the County of Barry as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.613 billion representing 50% of estimated current market value. In August 2005, the Transit's tax rate of .85 mills was approved for ten (10) years, expiring in December 2014. For the year ended September 30, 2006, Barry County Transit levied .25 mills.

NOTE G: DEFERRED COMPENSATION PLAN

Barry County Transit offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

The Administrators are agents of the County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Transits financial statements.

NOTE H: RETIREMENT PLAN

The Transit is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan, 48917, or may be reviewed at the Barry County Office Building, 220 West State Street, Hastings, Michigan, 49508.

The annual actuarial report for the County is dated each year for the period December 31 and has no separate data for the Barry County Transit. Accordingly, no separate actuarial data is included in these financial statements. The annual pension contribution for the Barry County Transit for the fiscal year ended September 30, 2006, was \$35,440.

NOTE I: RISK MANAGEMENT

The Transit, as a fund of Barry County, is protected from losses as described in the note captioned "Risk Management" within the County's Annual Financial Report.

NOTE J: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

OTHER SUPPLEMENTARY INFORMATION

Barry County Transit

SCHEDULE OF OPERATING REVENUES

Year Ended September 30, 2006

OPERATING REVENUES

Passenger fares	
Demand response	
General public	\$ 33,658
Contract rides	
Barry County Mental Health	94,717
Hastings Area School System	14,524
Thornapple Manor	6,200
Tendercare	<u>1,835</u>
Total contract rides	<u>117,276</u>
TOTAL OPERATING REVENUES	<u><u>\$ 150,934</u></u>

Barry County Transit

SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administrative</u>	<u>Total System</u>
Labor				
Operator's salaries and wages	\$ 144,738	\$ -	\$ -	\$ 144,738
Dispatcher's salaries and wages	53,143	-	-	53,143
Other salaries and wages	-	46,376	86,158	132,534
Fringe benefits	89,557	24,710	50,182	164,449
Contractual services				
Advertising fees	-	-	10,956	10,956
Maintenance	-	560	-	560
Other services	967	167	13,817	14,951
Materials and supplies consumed				
Fuel and lubricants	59,648	-	-	59,648
Tires and tubes	9,500	-	-	9,500
Other materials and supplies	58	41,453	3,398	44,909
Utilities	-	-	14,363	14,363
Miscellaneous expenses				
Dues and subscriptions	-	-	884	884
Travel and meetings	-	-	114	114
Other	130	251	8,594	8,975
Depreciation	<u>140,744</u>	<u>86</u>	<u>3,518</u>	<u>144,348</u>
Total Expenses	<u>\$ 498,485</u>	<u>\$ 113,603</u>	<u>\$ 191,984</u>	<u>\$ 804,072</u>

Barry County Transit

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended September 30, 2006

Property taxes	\$ 392,934
Regional transportation	14,565
Interest	2,188
Other	<u>2,716</u>
TOTAL NONOPERATING REVENUES - LOCAL	<u>\$ 412,403</u>

Barry County Transit

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended September 30, 2006

State of Michigan Grants	
Formula operating assistance (Act 51)	\$ 221,151
Capital grant - Section 5309 (computer equipment)	1,692
Prior year adjustments	<u>(12,613)</u>
Total State of Michigan Grants	210,230
Federal Grants	
U.S.D.O.T. operating grant - Section 5311	95,774
Capital grant - Section 5309 (computer equipment)	6,766
RTAP	590
Prior year adjustments	<u>464</u>
Total Federal Grants	<u>103,594</u>
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	<u><u>\$ 313,824</u></u>

Barry County Transit

SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS

Year Ended September 30, 2006

	Federal Section 5311	State Operating Assistance
Expenses		
Labor	\$ 330,415	\$ 330,415
Fringe benefits	164,449	164,449
Contracted services	26,467	26,467
Material and supplies	114,057	114,057
Utilities	14,363	14,363
Miscellaneous	9,973	9,973
Depreciation	144,348	144,348
Total expenses	804,072	804,072
Less: Ineligible expenses		
Depreciation	143,726	143,726
MPTA dues	111	111
Audit fees	5,300	-
Grant costs		
RTAP	335	335
Operating portion of grant 2002-0011/Z6	1,965	1,965
Regional transportation	14,565	14,565
Total ineligible expenses	166,002	160,702
NET ELIGIBLE EXPENSES	\$ 638,070	\$ 643,370
Maximum Section 5311 reimbursement 17% of \$638,070, not to exceed \$95,774	\$ 95,774	
Maximum State operating assistance 39.25% of \$643,370, not to exceed \$221,151		\$ 221,151

Barry County Transit

SCHEDULE OF INELIGIBLE EXPENSES

Year Ended September 30, 2006

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Ineligible Expense</u>
Urban Mass Transportation Administration		
A) Operating Grants Listed on Schedule of Expenditures of Federal and State Awards		
	1. Grant costs - Grant expenditures are included in the total expenses; therefore, are deducted to arrive at net eligible expenses.	\$ 16,865
	2. Audit fees - Audit fees are a federal ineligible expense when no single audit is required.	5,300
	3. Depreciation - Depreciation charged to contributed capital must be deducted as an ineligible expense.	143,726
	4. MPTA Dues - A percentage of the annual dues paid to the Michigan Public Transit Association must be deducted as an ineligible expense.	<u>111</u>
	Total	<u>\$ 166,002</u>

Barry County Transit

SCHEDULE OF MILEAGE DATA (UNAUDITED)

Year Ended September 30, 2006

	Public Transportation Mileage (1)
DEMAND-RESPONSE	
First quarter	41,209
Second quarter	40,747
Third quarter	43,019
Fourth quarter	45,451
TOTAL TRANSPORTATION	170,426

(1) The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Barry County Transit

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended September 30, 2006

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program Award Amount	Expenses
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Capital grant - Section 5309	20.500	2002-011/Z6	\$ 19,418	\$ 6,766
RTAP	20.509	N/A	590	590
Operating Assistance - Section 5311				
FY 05-06	20.509	2002-011/Z10	95,774	95,774
FY 02-03	20.509	2002-011/Z4	54,931	464
			<u>151,295</u>	<u>96,828</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			170,713	103,594
STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - ACT 51				
FY 05-06	N/A	N/A	221,151	221,151
Prior years	N/A	N/A	-	(12,613)
Capital grant - Section 5309	N/A	2002-011/Z6	4,855	1,692
TOTAL EXPENDITURES OF STATE AWARDS			<u>226,006</u>	<u>210,230</u>
TOTAL EXPENDITURES OF FEDERAL AND STATE AWARDS			<u>\$ 396,719</u>	<u>\$ 313,824</u>

Principals

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Michael T. Gaffney, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Barry County Transit
Hastings, Michigan

We have audited the accompanying financial statements of the business-type activities and the major fund of the Barry County Transit as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Barry County Transit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Barry County Transit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors of the Barry County Transit, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 25, 2006